

## Message Text

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ORIGIN EB-03

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FM SECSTATE WASHDC

TO AMEMBASSY PARIS IMMEDIATE

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PLEASE PASS ASSISTANT SECRETARY ENDERS

FOLLOWING SENT SECSTATE WASHDC INFO MANILA HONG KONG FROM  
TOKYO 11 APR 75:

QUOTE LIMITED OFFICIAL USE TOKYO 4742

PASS TREASURY, MANILA FOR ADB

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJ: ECONOMIC PROSPECTS FOR COUNTRIES IN SEA

REF: TOKYO 4486

1. AS PROMISED IN REFTEL WHICH DELAT PRIMARILY WITH IMF  
TRUST FUND PROPOSAL, SUBJECT WAS DISCUSSED WITH BOJ DIR,  
ASIA DIV, YOSHIO MIZOE. IN GENERAL HE EXPECTED CONTINUA-  
TION OF ECONOMIC SLOWDOWN IN 1975 AND B/P POSITIONS RE-  
MAIN WEAK. HOWEVER, HE SAW NO COUNTRY, EXCEPT PERHAPS  
KOREA, FACING PROBLEMS OF FINANCING B/P DEFICIT. BOJ DIR  
GENERALLY ADOPTED OFFICIAL ECONOMIC PROJECTIONS OF COUN-  
TRIES AS REASONABLE APPROXIMATION OF LIKELY PROSPECTS.

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2. IN ALL SEA COUNTRIES RATE OF ECONOMIC ADVANCE DE-

CLINED IN 1974. EXTENT OF SLOWDOWN VARIED CONSIDERABLY BETWEEN THE SEVERAL COUNTRIES OF THE REGION. RECESSION IN JAPAN AND U.S. HIT EXPORT INDUSTRIES IN SEVERAL OF THE SMALLER COUNTRIES SO THAT PRODUCTION AND EMPLOYMENT DROPPED SHARPLY IN THOSE INDUSTRIES. ADVERSE IMPACT HAS NOW SPREAD AND PERVaded MOST OTHER SECTORS IN THESE COUNTRIES. BOJ OFFICIAL HAS ESTIMATED THAT FOR KOREA, HONG KONG AND TAIWAN THERE HAD BEEN A THREE-MONTH LAG BEHIND SLOWDOWN IN JAPANESE ECONOMY, AND FOR OTHER ASEAN COUNTRIES, A SIX-MONTH LAG.

3. NO SUBSTANTIAL ECONOMIC RECOVERY IS IN PROSPECT IN 1975 FOR THESE COUNTRIES. SINCE JAPANESE ECONOMIC RECOVERY WOULD PROBABLY NOT GET UNDER WAY UNTIL AFTER MID-YEAR, BOJ OFFICIAL CONSIDERED IT UNLIKELY THAT OTHER SEA COUNTRIES WOULD FEEL FAVORABLE IMPACT UNTIL VERY LATE IN 1975. MOREOVER, JAPANESE IMPORT DEMAND FOR CERTAIN PRODUCTS WAS LIKELY TO REMAIN SLACK. LOG INVENTORIES IN JAPAN ARE LARGE AND COPPER PRODUCTION IS NOT EXPECTED TO REVIVIE QUICKLY. IMPORTS OF PRC OIL ARE REPLACING INDONESIAN OIL BECAUSE OF PRICE DIFFERENCES. JAPANESE DEMAND FOR SEA TEXTILE AND ELECTRONIC PRODUCTS WILL REMAIN DEPRESSED FOR SOME TIME ACCORDING TO BOJ OFFICIAL. IN ADDITION, NEW JAPANESE INVESTMENTS IN SEA WILL REMAIN SLACK BECAUSE OF EXCESS CAPACITY IN JAPAN AND TIGHT FINANCIAL CONDITIONS OF THE COMPANIES. ON THE OTHER HAND, FOR A COUNTRY LIKE INDIA, THE MORE IMPORTANT FACTOR IS THE SIZE OF DOMESTIC GRAIN CROPS RATHER THAN EXTERNAL DEVELOPMENTS.

4. BALANCE OF TRADE AND PAYMENTS GENERALLY DETERIORATED THROUGHOUT SEA AS VALUE OF IMPORTS INCREASED AND EXPORT GROWTH SLOWED. PROSPECT IS THAT THIS SITUATION WILL PERSIST IN 1975 BECAUSE OF SLACK DEMAND IN MAJOR IMPORTING COUNTRIES. DESPITE DETERIORATION SEA COUNTRIES EXPERIENCED NO SERIOUS FINANCING PROBLEMS LAST YEAR. BOJ OFFICIAL BELIEVES THAT IN 1975 ADEQUATE FUNDS FROM A VARIETY OF SOURCES WILL AGAIN BE AVAILABLE TO ENABLE COUNTRIES TO AVOID SERIOUS DIFFICULTIES IN FINANCING B/P DEFICITS.

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OIL PRODUCERS HAVE PROVIDED SOME DIRECT ASSISTANCE AND OIL PRICES TO MSA'S MIGHT BE LOWERED. FUNDS FROM OFFICIAL AND PRIVATE SOURCES CAN BE DRAWN UPON BY MOST OF THESE COUNTRIES TO TIDE THEM OVER UNTIL EXPORT GROWTH REVIVIES. BOJ OFFICIAL DID ENVISAGE POSSIBLE DIFFICULTIES FOR KOREA WHICH LAST YEAR RELIED VERY HEAVILY UPON PRIVATE BANKING FUNDS. OFFICIAL GAVE NO ENCOURAGEMENT THAT JAPANESE SOURCE FUNDS (PRIVATE OR PUBLIC) WOULD BE AVAIL-

ABLE TO ASSIST KOREA OR ANY OTHER SEA COUNTRY WITH B/P FINANCING PROBLEMS. THIS IS CONSISTENT WITH EMBASSY REPORT ON INTERNATIONAL BANK LENDING PRACTICES OF JAPAN (TOKYO 1757). SHOESMITH UNQUOTE KISSINGER

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